

**MINUTES**

**MONTANA SENATE  
56th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**SUBCOMMITTEE ON HB 678**

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**Call to Order:** By **SEN. BILL GLASER**, on April 12, 1999 at 3:45 P.M., in Room 413/415 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Bill Glaser, Chairman (R)  
Sen. Bob DePratu (R)  
Sen. Barry "Spook" Stang (D)

**Members Excused:** None

**Members Absent:** None

**Others Present:** Sen. John Bohlinger  
Sen. Dorothy Eck  
Sen. Alvin Ellis Jr.  
Sen. Gerry Devlin  
Rep. Chase Hibbard  
Rep. Bob Story  
Judy Paynter, Department of Revenue  
Madalyn Quinlan, Office of Public Instructions  
Curt Nichols, Office of Budget and Program  
Planning

**Staff Present:** Sandy Barnes, Committee Secretary  
Lee Heiman, Legislative Branch

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Bills Discussed: HB 678

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**DISCUSSION ON HB 678**

The Committee was provided the following information from the Montana Association of Counties: "Fiscal Impacts of Alternative Development Patterns: Broadwater and Gallatin Counties," **EXHIBIT (tas79b01)**, and "The Fiscal and Economic Impacts of Local Conservation and Community Development Measures," **EXHIBIT (tas79b02)**. **SEN. STANG** provided a "Display Overall Fee Table Information," **EXHIBIT (tas79b03)**.

**SEN. GLASER** said that this subcommittee must report back to the Taxation Committee soon enough for the bill to be read across the rostrum before tomorrow night. He asked if **Ms. Quinlan** had any information for the committee.

**Madalyn Quinlan** distributed a sheet entitled "Assumptions of **HB 678** Analysis," **EXHIBIT (tas79b04)**, which set out school district reimbursements, assumptions 1 through 6.

**Judy Paynter** said that **HB 678** as it is introduced and as a concept would provide very close to dollar-for-dollar reimbursement to each jurisdiction, except for the **SB 184** mills which are not going to be reimbursed and would end up being floated. She said everything goes into one pot, and whatever does not fill the top causes other mills to increase, which at this point is about \$26 million or \$27 million a year. The theory as presented by **REP. STORY** this morning for handling schools and local governments by calculating the dollar-for-dollar reimbursement keeps everybody in a pretty good relative position, pretty equal to where they are today.

**Ms. Paynter** said it is very difficult to calculate the dollars for every taxing jurisdiction, even when it is done in a formula such as suggested in **HB 678**, and the Department has been looking for an alternative to simplify that. If the reimbursement was channeled through the school program, to the BASE budget, and then the local governments float their mills to what was necessary to keep them whole, the taxpayers would see a tax reduction on their tax bill, and a good portion of schools would be taken off property taxes, with most of that property tax going to local government entities.

**Ms. Paynter** distributed a sheet entitled "Estimated Percent Change in Total Property Tax Liability FY 2001," which she said is very preliminary, **EXHIBIT (tas79b05)**. She said this was created very quickly, so she cannot guarantee accuracy, but what it does is put the money into the school GTB program, with the vehicle money going into direct state aid, and the rest going into Guaranteed Tax Base. At the bottom of the sheet is

reflected a total 10.8% decrease. It reflects, if the money were channeled through the school program where an appropriation could be set, were channeled through an existing administrative process so there would be no more cost or time spent administering it, what the impact would be. She said **HB 20** and **SB 417** were also put into this, so all the reimbursement mechanisms would go through the schools. She said there is a 9% drop in class four residences statewide; nonresidence class four, vacant land, ends up with a 7.1% drop; class four commercial has a .4% drop; agriculture has a 3% increase; class eight has a 48.5% decrease; class nine has a 10.9% decrease; and all other property has a 5.8% decrease. She said those are statewide totals, but there is some shifting, as reflected in the individual counties.

**SEN. STANG** asked if there was any class in the "all other properties" that are getting a big increase, such as timber land. **Ms. Paynter** said that at this point in time, **SB 184** took care of the timber, and that was the only category that had any significant hit in "all other property." **Ms. Paynter** said given a little time, she could show what happens to the various categories, and **SEN. GLASER** asked how long it would take to get that information. **Ms. Paynter** said she could do it this evening.

**SEN. ELLIS** asked how much the direct state aid would be increased and what percentage of the money is going into the GTB. **Curt Nichols, Office of Budget and Program Planning**, said that **SB 260** money would go into direct state aid, which is \$7 million in Fiscal Year 2000 and \$14 million in Fiscal Year 2001. That makes that direct state aid portion 42.1% and 44.5%. He said that the GTB was raised to 486%. **Mr. Nichols** said **SB 184** reimbursements are not funded.

**SEN. ELLIS** said this proposal should be seriously considered. He said it seems to be a very easy way to address this problem.

**SEN. STANG** said he had three questions that he needed to have answered: 1) referring to the \$12 million in teachers' retirement and other school funds that were not funded **SB 260**, he wondered if they are reimbursed or if there is still a \$12 million backfill of local taxes there; 2) how, on **SB 184**, the \$26 million or \$27 million that are not going to be reimbursed would be handled; and 3) he wondered about the problem with floating the mills to local government, and what happens to the cities that have charters that say they cannot go above a certain number of mills.

**SEN. GLASER** asked the Department of Revenue how much this proposal was going to cost. **Mr. Nichols** said that through the school funding formulas, looking at 2001, \$87 million was

allocated. That was added to schools to offset the tax losses. All local government losses have been funded through schools, except reimbursement for **SB 184**.

**SEN. STANG** said that if \$87 million was being put into this bill, he wondered what total amount of tax revenue was lost to schools and local governments in all the bills together, including the teachers' retirement and transportation monies. **Mr. Nichols** said that the loss to schools and local governments, excluding **SB 184**, was \$67 million. That includes **SB 128, HB 174, HB 658, SB 530, SB 200 and SB 260**. He said **HB 661** was not considered.

**SEN. STANG** asked, then, if the \$67 million loss included the \$12 million in **SB 260** that went through the various school funds, and **Mr. Nichols** said that was included. **SEN. STANG** said that schools and local governments took a \$67 million hit, but we are giving them back \$87 million, and **Mr. Nichols** said the other piece of that is the **HB 20** and **SB 417**, which are the current reimbursements being done through the schools also. **SEN. STANG** asked what those added up to, and **Mr. Nichols** said that was \$20 million. **SEN. STANG** said, then, that the only things not being funded are the homeowners' tax relief and **SB 184**, and **Mr. Nichols** said that was correct, except for a few small bills that are still in the process.

**SEN. GLASER** said that local taxpayers were being asked to pick up the \$18 million or \$19 million in **SB 184**. **SEN. STANG** said if that \$20 million is going back through the schools in the Guaranteed Tax Base, he wondered about local governments that have mill caps and how tax increment finance districts would be impacted.

**SEN. BOHLINGER** said he had an amendment that would deal with **SEN. STANG'S** concerns. He said these concerns were also expressed by **Mayor Kadas**, and **Mayor Kadas** had suggested that the committee consider some sort of reimbursement tied to growth and income taxes. He distributed copies of the amendment, **EXHIBIT (tas79b06)**. He said this would provide an open-ended sort of funding for local governments that would be more fair than the 1.5% factor that is included in the present bill.

**SEN. DEPRATU** said he had some concerns about open-ended funding for local governments. **SEN. BOHLINGER** said that tying the increase to a 1.5% multiplier does not necessarily cover the costs of police and fire protection. Tying it to the growth and income taxes collected comes closer to meeting the actual costs and needs of the community. **SEN. ELLIS** said he did not think both the proposed system and the suggested amendment should be

used. He said by funding through the direct state aid and GTB, there is an increase built in.

**SEN. STANG** said the amendment says "tied to the increases," and he wondered what would happen in years where there are decreases, and whether local governments would be willing to be tied to that decrease. He also said there is only a certain amount of money available, and if an increasing percentage is allocated to local governments, it means that the percentage for local school districts that would be allocated through the Guaranteed Tax Base is going to be less.

**SEN. BOHLINGER** said that perhaps the needs of local governments will be met, and perhaps the focus should be on schools and making them whole.

**SEN. GLASER** suggested that rather than doing an equalization and reimbursement process, a pure reimbursement calculation based on 1998 dollars be used, and that money be applied to local governments' loss. That way everybody shares equally in the amount of revenue that is available. He distributed a handwritten worksheet with this proposed formula,

**EXHIBIT (tas79b07)**.

**Jim Gillett, Legislative Audit Division**, explained that the formula is a straight reimbursement where the amount of money to be reimbursed would be determined by the legislature. That would eliminate putting anything in law that dictated a level of reimbursement, it just provides a vehicle. The heart of the formula is a comparison of the tax capacity in future years with the tax capacity of Fiscal Year 1998 prior to the property tax deductions of this session. If a local taxing jurisdiction lost a percentage of its tax capacity or its ability to generate revenue because its taxable valuations have gone down, then reimbursement could be made to whatever level the legislature chooses beginning with a 1998 base of the portion of the capacity that was lost. He said this might fairly mitigate the mill increases in individual taxing jurisdictions and the level of funding would be a legislative decision at that period.

**SEN. STANG** said he would like the Department of Revenue to try to find out the different values and also the effect on the other categories that are left that are going to be taxed when everything is done by not funding the \$26 million or \$27 million not reimbursed in **SB 184**. **SEN. GLASER** said that if his method was used, each Governor could include this in his budget, and the legislature could work on that.

The Committee recessed and reconvened April 13, 1999, at 7:30 a.m., with committee members Sen. Glaser, Chair, Sen. Depratu and Sen. Stang present. Also present were Sen. Bohlinger, Sen. Ellis, Sen. Eck, Rep. Story, Rep. Hibbard, Judy Paynter and Brad Simshaw from the Department of Revenue, Madalyn Quinlan from the Office of Public Instruction, and Jim Standaert from the Legislative Fiscal Division.

**SEN. GLASER** called the meeting to order. He asked **Judy Paynter** of the **Department of Revenue** if she had information for the committee.

**Ms. Paynter** handed out a sheet entitled "Tax Relief Provided by the 1999 Legislature, Fiscal 2001, 4/12/99, 9:40 p.m.," **EXHIBIT (tas79b08)**. She said this information is based on the premise that the reimbursement is put into the schools. The first page shows the amount of tax relief in the schools, and the second sheet shows how each county shifts. She said residential has about an 8.7% decrease, commercial has a 15.3% decrease, agriculture has a 12.1% decrease, timberland has a 3.6% increase, and all other decrease is 11.8%, for an overall property tax decrease of 10.4%. Motor vehicles go down 25%, for a total relief of 12%.

**Ms. Paynter** then handed out a sheet entitled "Reimbursement Costs of Bills with Property Tax Reimbursement," **EXHIBIT (tas79b09)**, and said that this reflects the breakdown of where the \$112,930,000 comes from in terms of bill numbers.

**Jim Standaert, Legislative Fiscal Division**, distributed a packet of information entitled "Impact on Mill Levies of Reimbursing through DSA and GTB producing \$74 million in BASE Tax Relief," **EXHIBIT (tas79b10)**. He said this is a listing by school district with a prediction of change in consolidated mills in each elementary school district. Consolidated mills includes county mills, city mills, miscellaneous district mills, all school mills, et cetera. This shows the FY 1999 consolidated mills, without the state 101 mills and without the BASE mills, because the concept was to reduce the BASE mills by enough to do the reimbursement. He then recalculated the new BASE mills with what the new consolidated local mills would have to be in order to get back the revenue that they had in Fiscal Year 1999. He said in virtually every district that is an increase.

**SEN. STANG** asked if the districts that have an increase have anything in common that might cause that, and **Mr. Standaert** said he had not had time to do that. He said, however, that probably these districts have a lot of nonlevy revenue. He said there are

only six or seven schools which are GTB noneligible, whereas there are about 100 presently.

**SEN. GLASER** said that this bill needs to get into a free conference committee, so he had requested **Mr. Heiman** to prepare some amendments to be presented to the Taxation Committee this morning. He said this amendment backfills all these bills using **Mr. Gillett's** formula. It drops **HB 20** and **SB 417**, folds that into **HB 678** at the 1998 level. It requires that the Governor's budget include the formula amount each year. It fixes the increment district bond problem and it earmarks \$80 million for the next biennium to be used for reimbursement in the formula. He said that ought to get this bill into conference committee with all three ideas included, the House proposal, the Department of Revenue and Office of Public Instruction proposal, and the Glaser proposal. That will allow a few more days to work on this issue.

**SEN. GLASER** said he and **SEN. DEPRATU** did not feel comfortable with the amendments submitted by **SEN. BOHLINGER** on behalf of **Mayor Kadas** of Missoula. **SEN. STANG** said he agreed with the first amendments, except that he would prefer to see the figure at \$90 million rather than \$80 million. **SEN. GLASER** said that it appears that in the end we will be just short of \$90 million, and **SEN. SWYSGOOD** was the one who suggested the \$80 million. He said with the \$20 million in **SB 417** and the \$70 million that is currently in the appropriations bill, and is not likely to change, he felt it would be brought to the table quicker if it started at \$80 million rather than \$90 million. A discussion ensued regarding the \$80 million amount and whether it should be higher or lower, and why. **SEN. DEPRATU** said he was comfortable with this \$80 million.

**Motion:** **SEN. DEPRATU MOVED AMENDMENT HB067803.ALH, EXHIBIT (tas79b11).**

**SEN. STANG** said that although he believes this needs to be done, he is going to vote against the motion because he would rather see \$90 million in there rather than \$80 million, but he felt that this is still moving in the right direction.

**Vote:** Motion carried 2-1, with Stang voting no.

**Motion:** **SEN. STANG MOVED THE AMENDMENT PROPOSED BY SEN. BOHLINGER BEFORE THE TAXATION COMMITTEE IN WHICH LOCAL GOVERNMENTS ARE REIMBURSED BASED ON A PERCENTAGE OF THE INCOME TAX.**

**Discussion:**

**SEN. STANG** said he was not completely satisfied with this concept, but that he felt if it was attached to the bill, it would make it easier to get information from the Department of Revenue on how it would work and why it is a good idea or a bad idea. He said if it is not handled in this way, the legislature would never have an opportunity to consider the matter. He said he agreed that cities are left holding the bag in this situation, especially those cities that have caps written into their charters.

**SEN. GLASER** asked if it could be handled through the stipulation regarding the Governor's budgeting recommendation. He said that would allow the appropriations process to take place. **SEN. DEPRATU** said that is a specific need and he recognized the sincerity with which it has been presented. He said he had a real problem with it, but that he would support this concept. **REP. HIBBARD** said that in addition to charter caps, there are other smaller funds that have mill caps on them. He said he is having an amendment prepared to go on **SB 184** that will, by resolution of the governing authority in local governments, enable a special reimbursement bill to be established to enable getting around those caps for purposes of reimbursement.

**SEN. GLASER** said that this involves the Governor taking the formula and applying that to the subsequent year's budget, which would then be the starting point that the appropriations committee begins with. That would tie this reimbursement to an increase in income tax.

**Vote: Motion carried 3-0.**



**ADJOURNMENT**

Adjournment: 8:00 A.M.

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SEN. BILL GLASER, Chairman

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SANDY BARNES, Secretary

GD/SB

**EXHIBIT (tas79bad)**